STRATEGIES TO HELP AVOID

Emotional Investing Mistakes

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Warren Buffett said, **"If you're emotional about an investment, you are not going to do well. You may have all these feelings about the stock, but the stock has no feelings about you."** With access to information at our fingertips and the news being reported every second of every day, investors can get caught up in the day to day headlines of political uncertainty, global concerns, Covid cases, and economic updates, and they want to know what it all means for their portfolios.

No one has a crystal ball, but ensuring that you have an action plan for when things start to get volatile will help remove the detrimental emotional behaviour that too often negatively impacts portfolios and retirement plans. It's extremely common for investors to let their emotions guide their investment decisions, which usually leads to making knee-jerk decisions to trade at the worst times. Markets can move quickly, and the most typical and usually damaging mistakes include chasing short-term performance and overpaying for an investment because of the fear of missing out, followed by being too slow to cut losses and selling something too late and at fire-sale prices after panicking.

Risk controls are increasingly important during times of market volatility, but you want them to be based on rules, data and statistics rather than emotional gut feelings. After a recent pullback, it may be difficult for investors to understand the difference between a larger 10%+ correction and a smaller 5-7% swing. Although corrections do not last forever, some large ones can take a while to rebound and, if you don't manage your portfolio properly, the impact can take your portfolio years to recover. When the markets have higher volatility, do not change your investment strategy; stick with your plan. Proactively take steps to shift your portfolio into a more defensive mode by reducing your exposure to stocks by taking profits, moving to fixed income or alternatives not connected to the market, rotating your sector exposure, reviewing your growth vs value stocks, and reviewing your risk tolerance at every portfolio review.

Remember that pullbacks and corrections are normal and part of investing that enables investors to have buying opportunities. While the uncertainty can sometimes be stressful, keeping a longer-term perspective and implementing risk controls such as proactive management, raising cash or using stop-losses can help protect your capital and achieve the risk-adjusted returns you are targeting. Short-term volatility is an inevitable part of investing. Don't sell out of everything when markets start to get a bit volatile. Stay the course.

We understand that this is certainly easier said than done, especially when there are downturns in the market and you are investing your nest egg. Trying to time the market should not be your primary focus; instead, choosing solid investments and adhering to a disciplined investment approach should be your priorities. A diversified portfolio with active management and a defined risk management strategy will reduce your volatility, making it easier to sleep at night while still aiming to hit your own personal return targets determined by your risk tolerance and financial goals. Just remember that markets never go up forever, and you need a plan to deal with a market downturn!

Brianne Gardner is a Financial Advisor of Velocity Investment Partners with Raymond James Ltd., a member of the Canadian Investor Protection Fund. This is for informational purposes only and does not necessarily reflect the opinions of Raymond James.